

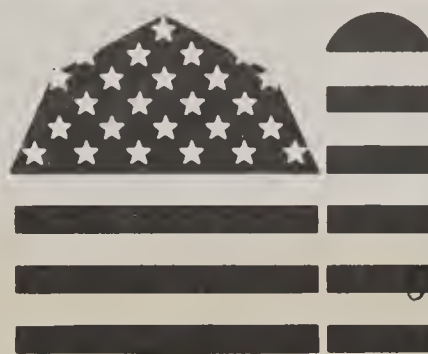
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FARMERS' NEWSLETTER

Livestock



SEP 12 '79

August 79/L-12

Herd Rebuilding Underway

The July 1 inventory of cattle and calves on U.S. farms and ranches totaled 118 million head, 3 percent below a year ago and 9 percent below July 1, 1977.

This year's calf crop is estimated at 43.5 million head, 1 percent less than in 1978 and the smallest number of calves born since 1963. This marks the fifth consecutive year of a reduced calf crop. But this year's decline is less than any of the previous 4 years.

A larger proportion of the calf crop is expected to be born in the second half of 1979 than in recent years. This indicates that more replacement heifers will calve and enter the cow herd during July-December than in the past few years.

On January 1, 1980, cattle numbers are expected to post their first year-to-year increase since January 1975. Herd expansion stems from large numbers of heifers being held for herd replacement and sharply reduced cow and calf slaughter.

On July 1, heifers held for beef herd replacement were up 8 percent from a year earlier. Conversely, the number of heifers on feed in recent months has been substantially below a year ago.

Cow slaughter fell 34 percent below last year during the first half of

1979 and calf slaughter slipped 36 percent. These reduced rates are expected to continue for the rest of this year.

Feed Prospects Look Good

While declining seasonally, grazing and forage conditions on July 1 were better than last year and above average across the country. Only parts of the Northwest showed some signs of stress in late July.

With fair to good conditions--or better--in most areas, forage supplies are more than adequate going into this fall. Also, hay supplies are plentiful. This provides a favorable base for herd expansion.

Excess grazing capacity this summer enabled many cattle producers to retain calves to market as yearlings this fall rather than sell them this summer while fed cattle prices and feeder cattle demand were declining.

Prospects look good for another large crop of feed grains and soybeans this year. Favorable weather conditions have helped cool grain and soybean meal prices. Chicago corn prices peaked at \$3.12 a bushel in mid-July before slipping to

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FEEDER CATTLE INVENTORY REDUCED

Item	1976	1977	1978	1979	1978 to 1979 % change
<i>1,000 head as of July 1</i>					
Cattle under 500 pounds					
On farms	39,370	38,331	34,805	33,793	-3
On feed ¹	442	533	687	582	-15
Net feeder supply	38,928	37,798	34,118	33,211	-3
Steers and heifers 500 pounds and over					
On farms	27,121	27,164	26,629	24,611	-8
On feed ¹	10,055	9,677	10,727	10,198	-5
Net feeder supply	17,066	17,487	15,902	14,413	-9
Total net feeder supply	55,994	55,285	50,020	47,624	-5

¹ Estimated U.S. steers and heifers. ² Not including heifers for cow replacements.

\$2.75-\$2.80 by the end of the month. Soybean meal prices in early August were about \$40 per ton below their peak levels in June.

However, don't expect much relief. Both domestic livestock feeding and strong export demand suggest that prices will remain fairly strong through the next year.

Feeder Cattle Supplies Tighten

On July 1, there were 5 percent fewer feeder cattle outside feedlots than a year earlier. Yearling feeder cattle were down 9 percent and calves were off 3 percent.

This reduced level of feeder cattle supplies, however, should be adequate to support relatively high levels of feedlot placements this fall. Most of the yearling feeder cattle, the last remnants of the liquidation phase of the cattle cycle, will be placed on feed late this summer and fall.

However, to market the ample supply of feeder cattle this fall, prices for yearlings must decline to the \$10-\$12 and low \$70's, or about \$60

cattle prices must rise much more than expected.

With losses on most fed cattle marketed this fall, feeders will be less willing to bid aggressively for feeder cattle.

It's likely that feeder cattle prices will decline some as grazing conditions deteriorate this fall and with fed cattle bringing much lower prices than this spring. Feeder cattle producers will want to watch the market closely as these developments unfold.

Feedlot Marketings Slow

On April 1, feedlot operators said they intended to market 6.35 million cattle during April-June. However, delayed marketings by feeders in late April and the truck strike in June held actual marketings to only 6.11 million head.

The July Cattle on Feed report showed plenty of heavy cattle. There were 50 percent more steers weighing over 1,100 pounds and 9 percent more steers weighing 900-1,100

pounds. Despite 14 percent fewer heifers on feed, the number of heifers weighing over 900 pounds was down only 1 percent.

Large supplies of heavy cattle have plagued cattle feeders since late May. Increased marketings of excessively finished cattle and higher pork production--together with a weakening economy--forced 900-1,100 pound Choice steer prices at Omaha to decline from \$77 in mid-April to below \$60 in early August.

Net placements in the second quarter were 8 percent below last year. Fewer cattle were placed on feed in June and July largely because fed cattle marketings were reduced and feeder cattle prices were high in relation to the lower fed cattle prices expected this fall and winter.

The number of cattle on feed July 1 was down 6 percent from a year earlier. Despite this decline, fed cattle marketings will continue large at least through August as the backlog of heavier cattle is worked off.

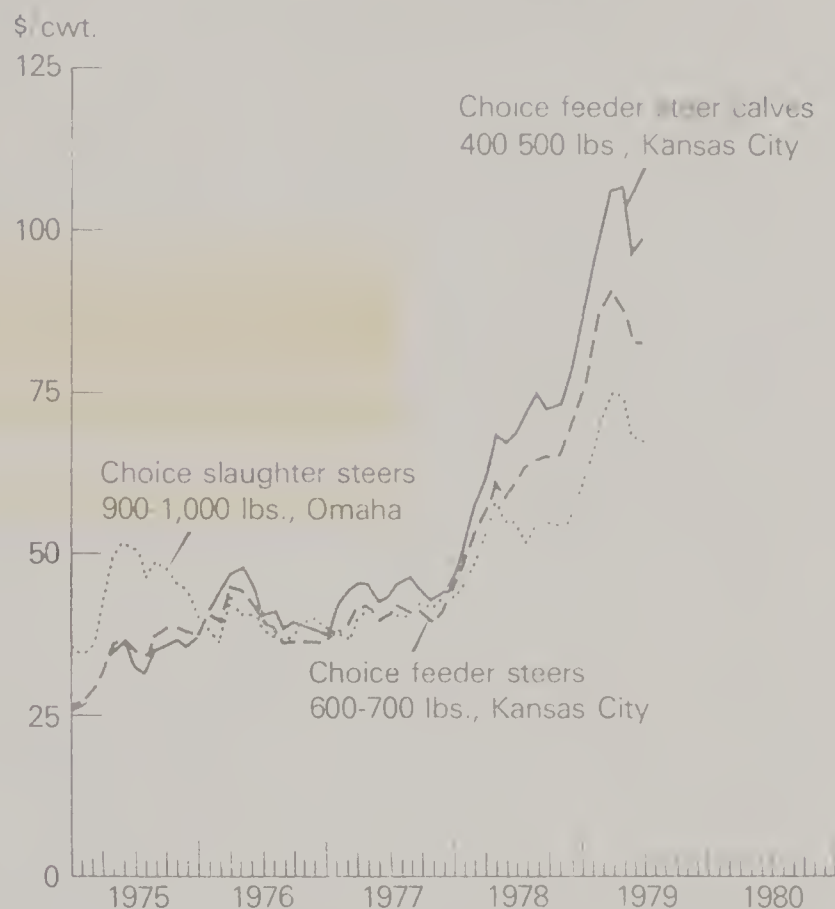
Feeders should place more cattle on feed during late summer and early fall. However, many of the cattle to go on feed in coming months will be heavier yearlings, and they will help

BREAK-EVEN FEEDER STEER PRICES ¹

Corn price \$ per bu.	Choice Steers, \$ per cwt.						
	50	55	60	65	70	75	80
	Feeder steers, \$ per cwt.						
2.00	45	54	62	71	80	89	97
2.25	43	52	61	69	78	87	96
2.50	41	50	59	67	76	85	94
2.75	39	48	57	66	74	83	92
3.00	37	46	55	64	72	81	90
3.25	36	44	53	62	71	79	88
3.50	34	42	51	60	69	77	86

¹ Feeder steer prices consistent with break-even prices for corn and fed steer prices. Assumes all other costs at June 1979 levels.

BIG GAP IN FEEDER-FED CATTLE PRICES



replenish the 500-900 pound weight groups, which were down 10-12 percent on July 1.

Fed cattle marketings this fall, however, will be considerably below the October-December 1978 level.

Losses on Fed Cattle Likely

Cattle already on feed that will be marketed during the next few months are not likely to return a profit. These cattle were placed on feed when feeder and fed cattle prices were much higher than at present. Now with the lower fed cattle prices, most cattle are being marketed at a loss.

Heavy cattle, large supplies of competing meats, and some lagging in demand have all contributed to the recent decline in fed cattle prices.

This fall and winter, fed cattle prices are not likely to return to the high levels of this spring in view of the big supply of competing meats.

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Choice 900-1,100 pound steers are expected to average in the mid-\$60's through the end of the year. At these price levels, losses can be expected on many of the fed cattle sold.

Cattle feeders need to be very cautious in coming months, and try to keep marketings current. Feeders are less likely to keep their marketings current when prices are falling.

Because delayed marketings raise the cost of gain and increase production through excessively finished cattle, they further depress prices.

As cattle feeders look to the future, they will want to closely watch their feed and feeder cattle costs.

The break-even table on page 3 will help you determine the prices that can be paid for feeder cattle at various fed cattle and corn prices.

If 900-1,100 pound Choice steers at Omaha average \$65 per hundredweight this fall and winter and the farm price of corn averages \$2.75 a bushel, the most you could pay for yearling feeder cattle and break even is \$66 per hundredweight.

Bear in mind that these are only guides to determine break-even costs since individual situations vary considerably.

Fewer Feeder Cattle Next Year

The yearling feeders placed on feed this fall will mark the end of the large feeder cattle supply that has persisted since the mid-1970's. Feeder cattle supplies will be much reduced in 1980 even though feeder calves may show the first year-to-year increase since 1974.

While the present situation presents many uncertainties for the cattle industry, the stage is set for even better returns for feeder cattle producers in 1980. But typical of this stage of the cycle with reduced feeder cattle supplies, the cattle feeder will continue to operate on a narrow margin.

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